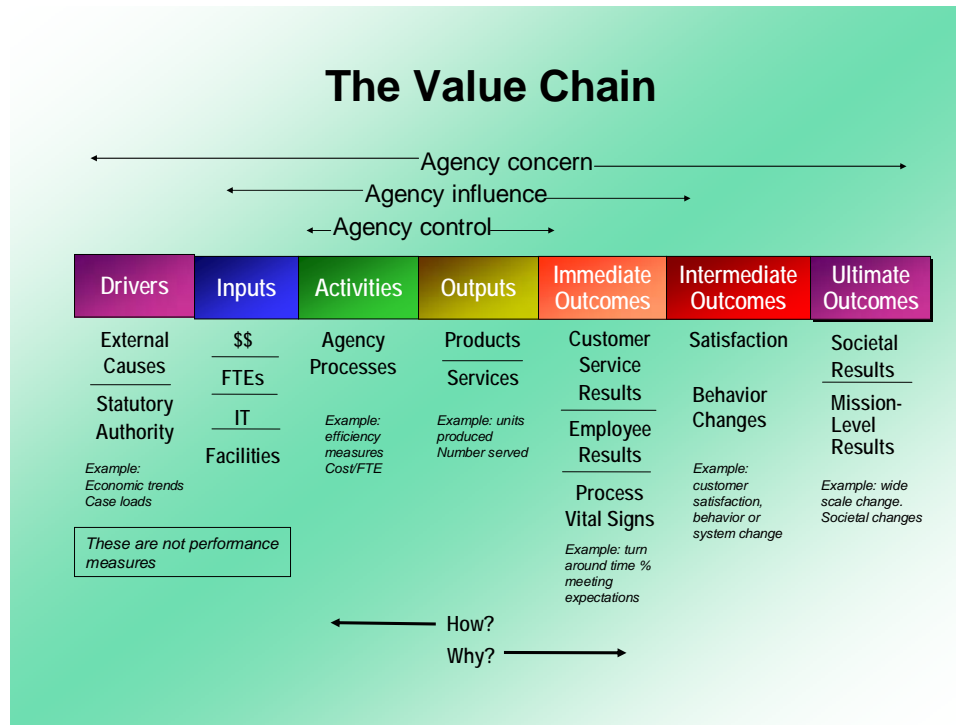


THE VALUE CHAIN MODEL OF PERFORMANCE MEASURES



The value chain is a model showing the relationship of performance data and measures based on work by Michael E. Porter.

It begins on the left with

- **Drivers** - these are actions that cause things to happen inside an organization; examples include increased caseload, economic downturn, rise in unemployment, or change in statutory authority, etc.

Next comes inputs into the system driven by the drivers

- **Inputs** - these include funding (or lack of), headcount (or lack of), technology, and the like. They are **not** performance measures

The inputs then drive certain activities

- **Activities** - Now we can begin to see measures of our work. These measures are process measures - workload indicators, \$ spent per FTE, productivity measures.

As a result of the activities, certain outputs are generated

- **Outputs** - These are the most common performance measures seen in organizations because they are easy to capture and calculate. Examples are # of products produced, # clients served, # reports generated, # audits completed.

It is important to try to move management to capture higher-level outcome measures versus output measures. These are the more strategic measures for an organization to use.

- **Immediate Outcomes** - These measures are results of the outputs -- in other words we produced so many widgets -- but we need to determine how well did they meet the expectations of the customer --so here we find measures such as turn around time, % of error free products, etc.

PERFORMANCE MEASUREMENT DEFINITIONS

- **Intermediate Outcomes** - These measures are a step higher. They are based on the impact the product and services had on behavior changes, or system changes, or overall customer satisfaction. Things such as % of clients who are no longer smoking after 3 years, % of clients earning an income x% above the poverty level, are typical of these measures.
- **Ultimate Outcomes** - These are the highest level of performance measures. They are the hardest to measure but the most meaningful for society and generally are the true measure of an organization meeting its mission. Examples are: percentage of clients who are totally self-sufficient of government subsidies, # of fatalities on state highways.

If you want to facilitate moving to the right on the value chain and use a higher level of performance measures simply ask why is this important? And, it will lead you to the next level of measures.

Likewise, if you want to know how we can achieve this - ask "How?" And it will move you to the left to lower outcome and output measures.

Across the top of the model you will note that not all of these suites of measures are totally within the control of the agency. However, most you can argue the agency can influence all of them and they certainly should be concerned about them all.

It is interesting to note that if the ultimate outcome of the Value Chain is not providing the expected results or is not exceeding the expected results, actions will circle around and change the drivers thus causing change in the whole system. For example if there is a sudden drop in unemployment, the Congress or the Legislature will take action and increase the funding or headcount for those agencies providing worker retraining or unemployment assistance.

PERFORMANCE MEASUREMENT

Performance measurement is the key to delivering, from any process, the results that are desired.

There are several attributes of a good Performance Measurement System

- It is **Focused** –on the organizations goals.
 - Prioritized on the organization's strategies and objectives
 - Aim to measure what the organization is trying to achieve.
- It is **Accepted** – by, and useful for, the stakeholders.
 - Consideration is taken as to who will use the information and how and why it will be used.
 - Different stakeholders have different needs and a different perspective of what "good" performance measurement is.
- It is **Balanced**, - covering all the significant areas of work.
 - Should cover the entire organization.
 - Apply The Balanced Scorecard concepts.
- It is **Robust**- able to withstand change
 - Should not be dependent on the knowledge and skills of a single individual.
 - Should still be viable when the process is changed.
- It is **Integrated** – into the organization; a part of the planning and management processes.
 - Objectives of the organization (and of all its components/segments/divisions) are clear, well-integrated and understood.
 - Objectives are reflected in the plans, structure, accountabilities, alignment and decision-making processes;
 - Strong relationship to the strategic plan.
 - Be cascaded down through the organization – to all levels.

PERFORMANCE MEASUREMENT DEFINITIONS

- It is **Cost Effective**, - balancing the benefits of the information against the costs.
 - Cost of collecting, sorting, analyzing, reporting must be relative to the value of the information gained

PERFORMANCE MEASUREMENT CRITERIA

Within a performance measurement system are some criteria that apply to all performance measures.

- **Attributable**
 - The measure must be capable of being influenced by actions which can be attributed to the organization.
 - It should be clear where accountability lies.
- **Well-defined**
 - Having a clear, unambiguous definition so data will be collected consistently.
 - A measure that is easy to understand and use.
- **Timely**
 - Having data produced regularly enough to track progress and quickly enough to be useful for taking action.
- **Reliable**
 - Accurate enough to make operational decisions.
- **Comparable**
 - Have the ability to measure against past periods, standards or benchmarks
- **Verifiable**
 - Clearly documented so that the processes which produce the data can be validated

In every measurement system there are elements of both quantitative and qualitative data.

- Ensure that there is a solid quantitative (data driven) base to the performance measurement system.
- However, also include qualitative measures.
 - Will gain enormous insight into the performance by looking at the context within which the process operates.
 - Will get equally valuable insight by spending time observing the process or operation.

References:

Porter, Michael; *Competitive Advantage: Creating and Sustaining Superior Performance*. (The Free Press), 1985

Her Majesty's Treasury, *Choosing the Right Fabric – A Framework for Performance Information*, 2000, pgs 8-11, 17-22, 31-33

Hillison, William A., Anita S. Hollander, Rhoda C. Icerman and Judith Welch (Institute of Internal Auditors), *Use and Audit of Performance Measures in the Public Sector*, 1995, pgs 13-16

Fountain, James, Wilson Campbell, Terry Patton, Paul Epstein and Mandi Cohn (Governmental Accounting Standards Board), *Reporting Performance Information: Suggested Criteria for Effective Communication*, 2003, pgs 31-32, 175-189

Kaplan, Robert S. and David P. Norton, *The Balanced Scorecard*, (Harvard Business School Press), 1996, pgs 147-166

Osbourne, David & Ted Gaebler, *Reinventing Government*, (Addison Wesley), 1992, pgs 349-359

Ramsey, Susan and Kim Bush, "Performance Measures, A Model for Understanding the Behavior of our Work," (WSP Workshop), 2004